Case Study

How to Negotiate your New Product Through Distribution

So many companies in the business market rely on distribution to meet the needs of their customers:

- Local service
- Parts availability
- Quick delivery
- Low-volume ordering
- One-stop shopping

But distribution can kill your new product before it ever gets to market. Approximately 60% of all new products for the business markets fail. For those products that go through distribution the failure rate is estimated to be above the consumer rate of 70%.

Why?

Ask the distributors. They've seen it all. The new product that seemed a winner and then sat on the shelf. And the other one that needed constant service, irritating the customer until they had to take it back. Distributors have earned the right to be cautious. Their customer relationships are the foundation of their business. Unfortunately, they're often a little too cautious and that can be the end of your new product.

When almost three out of every four new products fail, why should yours be any different? If you can convince the distributor that your product is up there with sliced bread, you'll put yourself in a strong negotiating position when it comes to the investment they need to make and the margin you expect.

We were helping a small but solid manufacturer enter a new market with a very creative product line. Before the client finalized the design, we had to be sure we were meeting the needs of the market. Was this product idea as great as we all thought?, Working with some of the leading thinkers in the psychology of decision making, we've developed our proprietary CoreDriver™ research process to accurately gage purchase motivations. We've proved its accuracy in a wide variety of market situations over the past eight years.

The results were clear; the product, with a minor change, was a definite winner. The problem, though, was convincing distribution. My client was new to them and the product was definitely not ordinary. Our client planned a strong introductory deal with a guarantee that would give them a high return and take out their risk. This standard approach has a big downside; you're sacrificing your margins and it will take

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considerable time to build them back. With the high investment in developing the product, you can't sacrifice those margins.

Instead, we helped our client introduce the product directly to a limited geographic area. The acceptance was excellent. Sales had little difficulty setting appointments and orders closed on a short cycle. The sales people then asked the customer to name their preferred distributor.

With orders in hand, rather substantial orders, our client approached the preferred distributors; would they be interested in carrying the product line, oh, and would they like these orders as a start? Signing distribution wasn't hard. They had little risk knowing the product would sell. And they knew our client was fully aware of the market demand. Negotiating a fair margin was not too hard.

Without the knowledge from our research, this approach could have been an expensive disaster. But our process clearly identifies the drivers of the purchase decision, and armed with that knowledge, smart sales people can dramatically shorten their sales cycle. This is the key to driving you product through distribution:

KNOW WHY THE MARKET WILL BUY THE PRODUCT.

With this knowledge we knew there was a strong market. The only issue was convincing distribution. Leveraging our knowledge, our client took the lead and built strong distribution at a reasonable margin.